

Message Text

LIMITED OFFICIAL USE

PAGE 01 NEW DE 10733 01 OF 02 081319Z

45

ACTION NEA-10

INFO OCT-01 EUR-12 EA-06 IO-10 ISO-00 SP-02 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02

OPIC-03 LAB-04 SIL-01 L-03 H-02 PA-01 PRS-01 AGR-05

INT-05 /123 W

----- 129841

R 081115Z AUG 75

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 502

INFO AMEMBASSY COLOMBO

AMEMBASSY DACCA

AMEMBASSY ISLAMABAD

AMEMBASSY KABUL

AMEMBASSY KATHMANDU

AMEMBASSY LONDON

AMEMBASSY MOSCOW

AMEMBASSY PARIS

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMCONSUL HONG KONG

AMCONSUL KARACHI

AMCONSUL LAHORE

USLO PEKING

CINCPAC

USMISSION USUN NEW YORK

LIMITED OFFICIAL USE SECTION 1 OF 2 NEW DELHI 10733

CINCPAC FOR POLAD

EO 11652: NA

TAGS: EIND, EGEN, IN

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 NEW DE 10733 01 OF 02 081319Z

SUBJ: ANALYSIS OF INDIA'S INDUSTRIAL SECTOR

REF: A) NEW DELHI 10402 B) NEW DELHI 10197

SUMMARY. CURRENT INDUSTRIAL PICTURE IS TROUBLED BECAUSE OF BUSINESS UNCERTAINTY DUE TO LACK OF EFFECTIVE CONSUMER DEMAND. HOWEVER, GOI EXPECTS PURCHASING POWER TO INCREASE LATER THIS YEAR, PRINCIPALLY BECAUSE OF BETTER AGRICULTURAL PROSPECTS. ALSO, SUPPLIES TO INDUSTRY OF ELECTRICAL POWER AND AGRICULTURAL RAW MATERIALS ARE IMPROVING, AND WORK STOPPAGES HAVE BECOME QUITE RARE. GOI INDUSTRIAL GROWTH RATE TARGET IS 5-6 PERCENT IN REAL TERMS THIS FISCAL YEAR, AND WE THINK THIS GOAL MAY BE ATTAINED. END SUMMARY.

1. PREVIOUS CABLES HAVE ANALYZED CURRENT AGRICULTURAL AND EXTERNAL ECONOMIC SITUATION; THIS ONE FOCUSES ON INDUSTRY. INDUSTRIAL SECTOR NOW ACCOUNTS FOR APPROXIMATELY 25 PERCENT OF INDIAN GROSS DOMESTIC PRODUCT AND EMPLOYS AN ESTIMATED 10 MILLION PEOPLE. FOR PAST SEVERAL YEARS SHORTAGES OF ELECTRICAL POWER AND AGRICULTURAL RAW MATERIALS AS WELL AS TRANSPORT AND LABOR PROBLEMS HAVE RESULTED IN SLUGGISH MANUFACTURING OUTPUT AND UNDERUTILIZATION OF CAPACITY. CREDIT SQUEEZE SINCE MID-1974 HAS ALSO CONTRIBUTED TO PROBLEM. INSUFFICIENT DEMAND, WHICH IS CONTINUING OR EVEN WORSENING IN SOME SECTORS, AND RECENT POLITICAL DEVELOPMENTS APPEAR TO BE MAJOR FACTORS IN CONTRIBUTING TO PRESENT BUSINESS UNCERTAINTY. HOWEVER, GOI IS COUNTING ON PURCHASE POWER TO INCREASE LATER IN YEAR AS A RESULT OF RECENT DECLINE IN PRICES AND BETTER AGRICULTURAL PROSPECTS. PARTICULAR FIRMS THAT ARE CURRENTLY HARD HIT INCLUDE PRODUCERS OF MACHINE TOOLS, AUTOMOBILES, RAILWAY CARS, JUTE MANUFACTURES AND COTTON TEXTILES. ALUMINUM COMPANIES MAY FIND THAT CUSTOMERS WILL NOT BE EAGER TO BUY THEIR PRODUCTS IN VIEW OF RECENT LARGE PRICE INCREASE.

2. LITTLE NEW INVESTMENT IS APPARENTLY NOW OCCURRING, EVEN ON THE PART OF BUSINESSMEN WHO HAVE PREVIOUSLY RECEIVED INVESTMENT LICENSES FROM THE GOI. HIGHER CAPITAL COSTS ARE PARTLY TO BLAME FOR THE DEPRESSION IN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 NEW DE 10733 01 OF 02 081319Z

THE CAPITAL GOODS SECTOR. FOREIGN INVESTORS ARE UNWILLING TO COMMIT THEMSELVES HERE BECAUSE OF UNCERTAINTY OVER THE GOVERNMENT'S POLICY TOWARD THEM. ALSO, THE RETURN ON EXISTING INVESTMENT APPEARS TO BE GENERALLY DECLINING.

3. IMPORTANT NEW FAVORABLE FACTOR IS IMPROVEMENT IN ELECTRICAL POWER SITUATION BECAUSE OF BETTER UTILIZATION OF POWER PLANTS AND SIGNIFICANTLY INCREASED RAINFALL

SINCE JUNE. POWER PICTURE IS GENERALLY SATISFACTORY IN ENTIRE NORTHERN REGION (EXCEPT FOR U.P.) AND IN EASTERN REGION GENERALLY, WHILE WESTERN REGION (PARTICULARLY MAHARASHTRA) IS EXPERIENCING WORST DIFFICULTIES. ACCORDING TO JULY 1975 MINISTRY OF ENERGY REPORT, THE COUNTRY'S TOTAL POWER AVAILABILITY IS 206.4 MILLION KWH, COMPARED TO REQUIREMENTS OF 227 MILLION KWH, OR A SHORT-FALL OF APPROXIMATELY 9 PERCENT. (IN CONTRAST, GAP BETWEEN AVAILABILITY AND REQUIREMENTS WAS ALMOST 20 PERCENT LAST MAY.) PERFORMANCE MAY IMPROVE FURTHER IF CURRENT MONSOON CONTINUES FAVORABLE TREND, ALTHOUGH MODERATE POWER CUTS IN VARIOUS STATES WILL STILL BE A FACT OF LIFE.

4. ANOTHER PLUS SIGN IS INCREASED AVAILABILITIES OF AGRICULTURAL RAW MATERIALS FOR INDUSTRY, ALTHOUGH THERE ARE STILL SOME SUPPLY BOTTLENECKS. THE EXPECTED FAVORABLE KHARIF (FALL) CROP THIS YEAR SHOULD ALLEVIATE THIS SITUATION. IMPROVED RAIL TRANSPORT HAS LESSENED ANOTHER CONSTRAINT ON INDUSTRIAL PRODUCTION. IN ADDITION, VERY FEW MAN-HOURS ARE NOW BEING LOST FROM STRIKES BECAUSE OF THE GOVERNMENT'S ADOPTION OF EMERGENCY POWERS. SEVEN DAY WORK WEEK AND FOUR OVERLAPPING SHIFTS A DAY HAVE BEEN INTRODUCED IN SOME COAL MINES, AND THIS PRACTICE MAY SPREAD TO OTHER INDUSTRIES. AS A RESULT OF THESE FACTORS, INDUSTRIAL OUTPUT AND PERHAPS PRODUCTIVITY SHOULD RISE. MANUFACTURING SECTORS CURRENTLY DOING WELL INCLUDE COAL, STEEL, ALUMINUM, PETROLEUM, CEMENT, AND FERTILIZERS.

5. SMALL SCALE INDUSTRIES ACCOUNT FOR ALMOST 40 PERCENT OF TOTAL MANUFACTURING OUTPUT AND APPROXIMATELY 50

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 NEW DE 10733 02 OF 02 081406Z

45

ACTION NEA-10

INFO OCT-01 EUR-12 EA-06 IO-10 ISO-00 SP-02 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02

OPIC-03 LAB-04 SIL-01 L-03 H-02 PA-01 PRS-01 AGR-05

INT-05 /123 W

----- 130316

R 081115Z AUG 75

FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 503
INFO AMEMBASSY COLOMBO
AMEMBASSY DACCA
AMEMBASSY ISLAMABAD
AMEMBASSY KABUL
AMEMBASSY KATHMANDU
AMEMBASSY LONDON
AMEMBASSY MOSCOW
AMEMBASSY PARIS
AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS
AMCONSUL HONG KONG
AMCONSUL KARACHI
AMCONSUL LAHORE
USLO PEKING
CINCPAC
USMISSION USUN NEW YORK

LIMITED OFFICIAL USE SECTION 2 OF 2 NEW DELHI 10733

CINCPAC FOR POLAD

PERCENT OF INDUSTRIAL EMPLOYMENT. YET, SMALL SCALE SECTOR
RECEIVES ONLY 12 PERCENT OF CREDIT PROVIDED BY
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 NEW DE 10733 02 OF 02 081406Z

NATIONALIZED BANKS. GOI IS ATTEMPTING TO STIMULATE
SMALLER FIRMS BY RESTRICTING COMPETITION OF THE LARGER
MANUFACTURING ENTERPRISES. FOR EXAMPLE, PRODUCTION OF
MORE THAN 20 DOMESTIC ELECTRICAL APPLIANCES WAS RECENTLY
RESERVED FOR SMALL SCALE SECTOR. THE GOVERNMENT IS ALSO
PUSHING IT TO ENTER MORE INTO EXPORT FIELD. HOWEVER,
MOST SMALL MANUFACTURERS REMAIN HIGH COST AND
INEFFICIENT PRODUCERS FOR DOMESTIC MARKET.

6. GOI TARGET FOR INCREASED INDUSTRIAL PRODUCTION (IN
REAL TERMS) THIS FISCAL YEAR IS 5-6 PERCENT (REF A)
WITH EXPORT GROWTH EVEN HIGHER. GOI OFFICIALS TELL US
THEY EXPECT EFFECTIVE DEMAND AND CONSEQUENTLY INDUSTRIAL
OUTPUT WILL PICK UP CONSIDERABLY WITHIN SEVERAL MONTHS
AFTER CONCLUSION OF KHARIF HARVEST AND BEGINNING OF
"BUSY" ECONOMIC SEASON. AS A COROLLARY, GOI IS COUNTING
ON INCREASED CAPACITY UTILIZATION TO HELP ACHIEVE ITS

INDUSTRIAL GOALS, AND IS THREATENING FIRMS WHOSE OUTPUT DOES NOT REACH 75 PERCENT OF CAPACITY. (THIS TARGET APPEARS UNREALIZABLE FOR MOST OF INDIAN INDUSTRY FOR NOW.) CONTINUED CREDIT RESTRAINT (EXCEPT TO PRIORITY SECTORS) IS EXPECTED, BUT BANKERS AND INDUSTRIALISTS SEEM TO BE ADJUSTING TO THIS POLICY. THEREFORE, WE DO NOT THINK IT WILL HAVE ANY MAJOR ADVERSE EFFECT ON FUTURE PRODUCTION.

7. MAJOR GOVERNMENT PROBLEM NOW IS TO CONVINCE BUSINESSMEN THAT ITS ECONOMIC POLICIES ARE SOUND AND THAT ECONOMY WILL PICK UP. NUMEROUS BUSINESSMEN WE HAVE SEEN STILL FEEL INDUSTRY IS IN DOLDRUMS, AND THEY ARE WAITING UNTIL DEMAND REVIVES BEFORE COMMITTING THEMSELVES TO ANY NEW EXPANSION EFFORTS. NEVERTHELESS, GOI HAS ANNOUNCED AMBITIOUS OUTPUT TARGETS FOR A NUMBER OF KEY INDUSTRIES IN THE 1975-76 ANNUAL PLAN (REF B). AS IS NORMAL PRACTICE HERE, ACTUAL PRODUCTION LEVELS IN MAJOR SECTORS ARE BELOW PLANNED TARGETS.

8. ON THE BASIS OF OUR TALKS WITH GOI OFFICIALS AND PERSONS IN THE PRIVATE SECTOR, WE BELIEVE THAT THE GOVERNMENT'S INDUSTRIAL GROWTH GOAL FOR IFY 1975-76 IS REALISTIC, ASSUMING THAT BUSINESS CONFIDENCE REVIVES.

LIMITED OFFICIAL USE

PAGE 03 NEW DE 10733 02 OF 02 081406Z

THE COMPARISON WILL BE WITH A RELATIVELY POOR MANUFACTURING PERFORMANCE (3-4 PERCENT REAL GROWTH) LAST YEAR. MORE IMPORTANTLY, IT IS LIKELY THAT KHARIF CROP, IF SUCCESSFUL, WILL HAVE AN IMPORTANT STIMULATIVE EFFECT ON INDUSTRY (AND REST OF THE ECONOMY) BECAUSE AGRICULTURAL SECTOR IS SO IMPORTANT HERE. NEVERTHELESS, SOME OF THE BASIC INDUSTRIAL PROBLEMS, SUCH AS UNDERUTILIZED CAPACITY AND INEFFICIENT TECHNIQUES, WILL REMAIN. WE DO NOT FORESEE, THEREFORE, ANY MAJOR BREAKTHROUGH (IN TERMS OF RAPID GROWTH) FOR INDUSTRIAL PRODUCTION IN THE COMING MONTHS. THE NEXT FEW MONTHS ARE LIKELY TO CONTINUE SLACK BUT GROWTH ALONG THE LINES HOPED FOR BY THE GOI IS WELL WITHIN THE REALM OF THE POSSIBLE.

SAXBE

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, INDUSTRIAL PRODUCTION, AGRICULTURAL PRODUCTION, SALES
Control Number: n/a
Copy: SINGLE
Draft Date: 08 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: RowellE0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975NEWDE10733
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750274-0723
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750870/aaaacjkw.tel
Line Count: 267
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 NEW DELHI 10402, 75 NEW DELHI 10197
Review Action: RELEASED, APPROVED
Review Authority: RowellE0
Review Comment: n/a
Review Content Flags:
Review Date: 21 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 MAY 2003 by ShawDG>; APPROVED <03 OCT 2003 by RowellE0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ANALYSIS OF INDIA'S INDUSTRIAL SECTOR
TAGS: EIND, EGEN, IN
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006